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RUEHJB/AMEMBASSY BUJUMBURA 0167
RUEHEG/AMEMBASSY CAIRO 3947
RUEHDK/AMEMBASSY DAKAR 1278
RUEHDR/AMEMBASSY DAR ES SALAAM 5359
RUEHDJ/AMEMBASSY DJIBOUTI 4764
RUEHKM/AMEMBASSY KAMPALA 2135
RUEHKH/AMEMBASSY KHARTOUM 1283
RUEHLGB/AMEMBASSY KIGALI 4858
RUEHLO/AMEMBASSY LONDON 2320
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RUEHFR/AMEMBASSY PARIS 2258
RUEHRO/AMEMBASSY ROME 5173
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RUEAWJA/DEPT OF JUSTICE WASHDC

UNCLAS NAIROBI 002754

SIPDIS

SENSITIVE

STATE FOR AF/E, AF/EPS, EB/ESC/TFS, AND S/CT

TREASURY FOR VIRGINIA BRANDON AND FINCEN

JUSTICE FOR AFMLS DE KLUIVER, OIA, OPDAT

SIPDIS

E.O. 12958: N/A

TAGS: [EFIN](#) [PGOV](#) [EINV](#) [KCOR](#) [KCRM](#) [PINR](#) [KE](#)

SUBJECT: CENTRAL BANK OF KENYA GOVERNOR REPUTEDLY UNDER
POLITICAL PRESSURE FOR STANDING FIRM AGAINST CHARTERHOUSE

REFS: (A) NAIROBI 1185 (B) NAIROBI 1026

(C) 06 NAIROBI 4469 NOTAL

1. (U) Sensitive but Unclassified. Please protect
accordingly. For USG use only.

2. (SBU) Summary: Former Central Bank of Kenya (CBK) Bank
Supervision Director Gerald Arita Nyaoma suggested to
Economic Specialist on June 29 that he fears that President
Mwai Kibaki and the State House are attempting to sideline
recently appointed CBK Governor Njuguna Ndung'u (ref B) for
standing firm against unsavory private banks such as
Charterhouse Bank (ref A). He cited as particularly
worrisome proposed amendments to the Central Bank of Kenya
Act to provide for the presidential appointment of the
Chairman of the Board of the Directors, a position
traditionally held by the Governor. In Nyaoma's
estimation, these amendments, if adopted, would open
avenues for political manipulation of this key institution.
End summary.

CBK Governor makes His First Move

3. (SBU) Appointed in March 2007, Central Bank of Kenya
(CBK) Governor Njuguna Ndung'u (ref B) made his first
personnel changes in late June when he transferred Gerald
Arita Nyaoma from his position as the director of Banking
Supervision to the helm of a bigger National Payments
Systems, External Payments and Reserve Management

Department. As Nyaoma explained to Economic Specialist on June 29, his transfer ostensibly is intended to have him assume responsibilities as the director of a larger, more varied department. However, Nyaoma feels his transfer may have less to do with his abilities than with his efforts to close shady private banks, in particular the notorious Charterhouse Bank (refs A,C), which was shut down last December for engaging in money laundering and tax evasion. Nyaoma contended Kenyans with a financial stake in Charterhouse are waging a media campaign against the CBK claiming it unjustly closed the bank, while behind the scenes they are putting political pressure on Ndung'u to sideline Nyaoma and other CBK officials committed to cleaning up Kenya's financial sector. He alleged demands were made on Ndung'u to have him removed from the Banking Supervision Department. (Note: Nyaoma is scheduled to attend the Federal Reserve's Anti-Money Laundering Examination Seminar to be held August 27-31, 2007 in Chicago, Illinois with other two senior officers from Banking Supervision Department. End Note.)

A Career Banker takes over

¶4. (U) In Nyaoma's stead, Governor Ndung'u promoted Rose Alex Detho as Bank Supervision director on June 12. A career banker, credited for liquidating errant banks, Ms. Detho was previously assistant director in the same department and has served on several occasions as the CBK-appointed 'statutory manager' for distressed financial institutions. Since joining the Central Bank in August 1988, Detho has worked as a bank examiner and financial analyst in the Bank Supervision Department. Her new role

is to regulate and supervise the banking sector with the core objective of fostering the liquidity, solvency and proper functioning of a stable market-based financial system. She has served at the Kenya Deposit Protection Fund Board in her capacity as Liquidation Agent of a number of failed institutions. She once deputized the Receiver, Grand Regency Hotel, which was under the receivership of CBK. The 47-year old banker holds an MBA and Bachelor of Commerce from the University of Nairobi.

¶5. (SBU) Detho has been in the process of winding up Charterhouse Bank, i.e., paying the depositors in accordance with the Deposit Protection Act. Upon her appointment, Nyaoma alleged that Charterhouse Bank members started sending threatening messages to her phone. According to Nyaoma, Detho had to record a statement with the Nairobi Criminal Investigations Department (CID). Although no action has yet been taken, the police are aware of the threats, which Nyaoma asserted are intended to arm-twist CBK to have Charterhouse Bank re-opened. Aside from these threats against Detho, Nyaoma argued that Charterhouse Bank associates are behind an effort to amend the Central Bank of Kenya Act. He took exception to proposed amendments to the Act which would provide for the presidential appointment of the Chairman of the Board of the Directors, a position traditionally held by the Governor. Nyaoma was adamant that the proposed amendment of the CBK Act to provide for a political appointee at the helm of CBK as its Chairman of the Board of Directors would compromise the autonomy of the Bank. He posed a question 'what happens if CBK wants to close a bank and the Chairman feels otherwise like in the Charterhouse Bank case where Finance Minister Amos Kimunya felt the Bank should not be closed?? Last year, Minister Kimunya attempted to wrestle powers from CBK by making a similar proposal but it was not passed by the Kenyan Parliament. Other proposals include creation of a second office of Deputy Governor although no specific duties are assigned to the new office.

Comment

¶6. (SBU) The personnel changes made by CBK Governor Ndung'u appear well intentioned but the timing is wanting. It is not clear whether the Governor is succumbing to the whims of certain political elites beholden to Charterhouse Bank, although he has repeatedly informed the Econ office that he would quit should politicians try to manipulate his work. We will continue to monitor developments at the institution which is at the heart of Kenya's economic development, especially during this election year as politicians are bound to try to exert pressure on the institution. End comment.

Ranneberger